

Marinus Link

Updated Commencement and Process Paper

March 2024

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Summary

Marinus Link is a proposed 1500 MW transmission link between Tasmania and Victoria. The project comprises two undersea High Voltage Direct Current cables running across the Bass Strait and converter stations in Tasmania and Victoria. Marinus Link will connect to the existing transmission networks in both states. Upgrades to the Tasmanian transmission network will be required to accommodate the new link.

On 1 June 2023 we published our decision¹ to:

- commence a transmission determination process for Marinus Link pursuant to clause 6A.9.2(f) of the National Electricity Rules (NER), and
- published the Commencement and Process Paper for Marinus Link, in which we specified modifications to the normal transmission determination process set out in Chapter 6A of the NER such that the process is divided into two stages for Marinus Link, namely:
 - Stage 1: an early works revenue determination for development and tendering work, and a construction cost determination, in which we would determine the cost of constructing the Marinus Link project, and
 - Stage 2: a full revenue determination, which, on the basis of the construction cost determination, we would determine all of the matters we are required to under rule 6A.14 of the NER, including determining an opening Regulatory Asset Base, and incorporate other elements of our building block methodology, such as operating expenditures and a rate of return allowance, to determine revenues and tariffs.

The decision allowed Marinus Link to progress the project and submit a regulatory proposal to the AER for early works. On 19 December 2023, we published our revenue determination for Stage 1, Part A (Early works).²

Update

On 16 February 2024, Marinus Link wrote to the AER to request an update to the Commencement and Process Paper.³

On 15 March 2024, we published our reasons for decision in accepting Marinus Link's requested amendments to the Commencement and Process Paper and summary of the amendments.⁴

The Commencement Process Paper has been updated below to reflect the amendments requested by Marinus Link and approved by the AER.

¹ AER, *Marinus Link Decision: Transmission Determination Commencement and Process Paper*, June 2023

² AER, *AER Determination: Marinus Link Stage 1, Part A (Early works)*, December 2023

³ Marinus Link, *Letter to AER: Commencement and Process Paper*, February 2024

⁴ AER, *Marinus Link: Decision to amend Commencement and Process Paper*, March 2024

1. Background

1.1 About Marinus Link

Marinus Link is a proposed 1500 MW transmission link between Tasmania and Victoria. The project comprises two undersea High Voltage Direct Current cables running across the Bass Strait and converter stations in Tasmania and Victoria. Marinus Link will connect to the existing transmission networks in both states. Upgrades to the Tasmanian transmission network will be required to accommodate the new link.

Marinus Link will be owned and operated by Marinus Link Pty Ltd, a joint venture between the Tasmanian, Victorian and Australian Governments.

Consumers across the National Electricity Market (NEM) will benefit from Marinus Link. As coal plants are retired and replaced by intermittent wind and solar sources, firming up the supply of electricity generation will be required. Marinus Link will allow Tasmania to export electricity generated by its hydroelectricity plants into Victoria. Cost benefit assessments will provide an estimate of the net benefits to consumers – that is the benefits from the project less the additional transmission costs.

2. Commencement and Process Paper

In December 2022, the Australian Energy Market Commission (AEMC) implemented a rule change which provided for the AER to make a transmission determination for what is referred to as an “Intending TNSP”.⁵ Marinus Link is an example of an intending TNSP.

On 31 March 2023, Marinus Link lodged an application requesting us to commence, and determine, the process for us to make a transmission determination. In so doing, Marinus Link proposed a three-stage revenue determination process with:

- early works (commencing July 2023)
- construction costs (commencing February 2024)
- final revenues (commencing January 2027).

On 1 June 2023, we published our decision to commence the process for making a transmission determination for Marinus Link (Commencement Decision).⁶ The Rule requirements and our reasons for commencing the transmission determination are set out in the Commencement Decision.

3. Request to amend Commencement and Process Paper

On 16 February 2024, Marinus Link requested amendments to the Commencement and Process Paper. The request was made in accordance with clause 6A.9.3(f) of the NER, which provides that the AER may, on application of the relevant intending TNSP, amend a Commencement and Process Paper if the AER is satisfied that the circumstances have arisen such that the amendment is reasonably necessary.

On 15 March 2024, we published our decision and reasons for accepting Marinus Link’s requested updates as well as a summary of the amendments.⁷

⁵ Establishing Revenue Determinations for Intending TNSPs, AEMC, 22 December 2022

⁶ AER, *Marinus Link Decision: Transmission Determination Commencement and Process Paper*, June 2023

⁷ AER, *Marinus Link: Decision to amend Commencement and Process Paper*, March 2024

3.1 Revised timeline

Table 1 below sets out the revised timeline following Marinus Link’s request to amend the Commencement and Process Paper. For the construction cost determination, the nine-month determination process, with consultation on an issues paper and a draft decision, is consistent with the process established under the original Commencement and Process Paper.

The Stage 2 revenue determination (the full revenue determination) will follow the usual 15-month process, consistent with the original Commencement and Process Paper.

Table 1: Marinus Link – Revised Milestones

Milestone	Original Timing	Revised Timing
Marinus Link to submit Stage 1, Part B (Construction cost) revenue proposal	28 February 2024	15 July 2024
AER issues paper and stakeholder consultation	April 2024	August 2024
AER public forum	April 2024	August 2024
AER draft decision	July 2024	November 2024
Marinus Link to submit revised regulatory proposal	September 2024	January 2025
AER final decision on Part B (Construction cost) revenue proposal	20 November 2024	15 April 2025
First Regulatory Period commences	1 July 2025	1 July 2025
Marinus Link to submit Stage 2 (Revenue proposal)	30 January 2027	30 January 2029
AER final decision Stage 2 (Revenue proposal)	30 April 2028	30 April 2030
First Regulatory Period ends	30 June 2028	30 June 2030

3 Decision

Our determination on the commencement of a transmission determination process for Marinus Link, and the matters we are required to set out in a Commencement and Process Paper, are set out below.

Amendments requested by Marinus Link on 16 February 2024, and considered reasonable in the circumstances by the AER, are reflected below.

Matter	Decision
Commencement of a transmission determination process for Marinus Link	Yes.
Commencement date for Marinus Link's transmission determination	Previously: 1 July 2025 to 30 June 2028 Revised dates: 1 July 2025 to 30 June 2030
Date by when Marinus Link must submit its revenue proposal and proposed pricing methodology	Stage 1, Part A (Early works) – 31 July 2023 Stage 1, Part B (Construction costs) Previously: 28 February 2024 Revised date: 15 July 2024 Stage 2 (including Pricing Methodology) Previously: 30 January 2027 Revised date: 30 January 2029
Whether the process for a transmission determination is to be completed in more than one stage, and if so, what matters are to be determined in each stage.	Yes, in two stages: <ul style="list-style-type: none">• Stage 1:<ul style="list-style-type: none">▪ an early works revenue determination, which we understand would cover development and tendering work▪ a construction cost determination, in which we would determine the cost of constructing the first cable, with the construction costs for the second cable to be included as a contingent project application<ul style="list-style-type: none">▪ note this is an amendment to the original process where stage 1 construction costs included both cables one and two with no provision for a contingent project application• Stage 2: a full revenue determination, which, on the basis of the construction cost determination, we would determine all of the matters we are required to under rule 6A.14 of the NER, including determining an opening Regulatory Asset Base, and incorporate other elements of our building block methodology, such as operating expenditures and a rate of return allowance, to determine revenues and tariffs. Attachment A sets out which matters under rule 6A.14 of the NER the AER will determine in each stage.

The modifications to the process we may determine in making Marinus Link’s transmission determination

Modifications for Stage 1:

- We omit
 - the expenditure forecasting and pricing methodologies,
 - the framework and approach paper (though relevant matters will be addressed in the Issues Paper)
 - the overview paper
- Information obligations of Marinus Link for the Part A and Part B regulatory proposals are modified as follows:
 - Information relating to revenue setting, forecasting and pricing where these matters are not relevant to Marinus Link’s expected circumstances during Stage 1;
 - Information relating to the regulatory asset base, other than information required to determine the capitalisation of return of capital
 - In relation to incentive mechanisms other than information required to determine the possible application of the capital expenditure sharing scheme (CESS)
- Early works determination: five-month process with one consultation step, commenced on 31 July 2023
- Construction costs determination: nine-month process with two consultation steps (following an issues paper and a draft decision), commencing on the revised date of 15 July 2024.

Modifications for Stage 2:

- There are no modifications applying to Stage 2. A full revenue determination is required using the standard 15-month process under Chapter 6A of the NER, commencing in January 2027.

The methodology to determine how the return on capital, earned in regulatory years prior to the provision of prescribed transmission services, is to be capitalised into the RAB for a proposed transmission system.

The AER reviewed Marinus Link’s regulatory proposal for Stage 1, Part A (Early Works) and determined the methodology in our determination.

Attachment A – Table of decisions to be made under rule 6A.14 of the NER by Stage/Part

Clause 6A.14.1 - Content of decisions	Stage 1 Part A	Stage 1 Part B	Stage 2
(1) on the Transmission Network Service Provider's current Revenue Proposal in which the AER either approves or refuses to approve			
(i) the total revenue cap for the provider for the regulatory control period;	Not Included	Not Included	Included
(ii) the maximum allowed revenue for the provider for each regulatory year of the regulatory control period;	Not Included	Not Included	Included
(iii) the values that are to be attributed to the performance incentive scheme parameters for any service target performance incentive scheme that is to apply to the provider in respect of the regulatory control period;	Not Included	Not Included	Included
(iv) the values that are to be attributed to the efficiency benefit sharing scheme parameters for any efficiency benefit sharing scheme that is to apply to the provider in respect of the regulatory control period; and	Not Included	Not Included	Included
(v) the commencement and length of the regulatory control period that has been proposed by the provider,	Included	Included	Included
(2) in which the AER either:			
(i) acting in accordance with clause 6A.6.7(c), accepts the total of the forecast capital expenditure for the regulatory control period that is included in the current Revenue Proposal; or	Included	Included	Included
(ii) acting in accordance with clause 6A.6.7(d), does not accept the total of the forecast capital expenditure for the regulatory control period that is included in the current Revenue Proposal, in which case the AER must set out its reasons for that decision and an estimate of the total of the Transmission Network Service Provider's required capital expenditure for the regulatory control period that the AER is satisfied reasonably reflects the capital expenditure criteria, taking into account the capital expenditure factors;	Included	Included	Included
(3) in which the AER either:			
(i) acting in accordance with clause 6A.6.6(c) or clause 6A.6.6(c1), accepts the total of the forecast operating expenditure for the regulatory control period that is included in the current Revenue Proposal; or	Not Included	Not Included	Included
(ii) acting in accordance with clause 6A.6.6(d), does not accept the total of the forecast operating expenditure for the regulatory control period that is included in the current Revenue Proposal, in which case the AER must set out its reasons for that decision and an estimate of the total of the Transmission Network Service Provider's required operating expenditure for the regulatory control period that the AER is satisfied reasonably reflects the operating expenditure criteria, taking into account the operating expenditure factors;	Not Included	Not Included	Included

(4) in which the AER determines:			
(i) whether each of the proposed contingent projects (if any) described in the current Revenue Proposal are contingent projects for the purposes of the revenue determination in which case the decision must clearly identify each of those contingent projects;	Not Included	Included under revised process	Included
(ii) the capital expenditure that it is satisfied reasonably reflects the capital expenditure criteria, taking into account the capital expenditure factors, in the context of each contingent project as described in the current Revenue Proposal;	Not Included	Included under revised process	Included
(iii) the trigger events in relation to each contingent project (in which case the decision must clearly specify those trigger events); and	Not Included	Included under revised process	Included
(iv) if the AER determines that such a proposed contingent project is not a contingent project for the purposes of the revenue determination, its reasons for that conclusion, having regard to the requirements of clause 6A.8.1(b);	Not Included	Included under revised process	Included
(5A) in which the AER determines how any applicable capital expenditure sharing scheme, small-scale incentive scheme or demand management innovation allowance mechanism is to apply to the Transmission Network Service Provider;	Included	Included	Included
(5B) on the allowed rate of return for each regulatory year of the regulatory control period;	Included	Included	Included
(5C) on the allowed imputation credits for each regulatory year of the regulatory control period;	Included	Included	Included
(5D) on the regulatory asset base as at the commencement of the regulatory control period in accordance with clause 6A.6.1 and Schedule 6A.2;	Included	Included	Included
(5E) on whether depreciation for establishing the regulatory asset base as at the commencement of the following regulatory control period is to be based on actual or forecast capital expenditure;	Not Included	Not Included	Included
Note: See clause S6A.2.2B.			
(8) on the Transmission Network Service Provider's current proposed pricing methodology, in which the AER either approves or refuses to approve that methodology and sets out reasons for its decision; and	Not Included	Not Included	Included
(9) on the additional pass through events that are to apply for the regulatory control period in accordance with clause 6A.6.9.	Included	Included	Included

Glossary

Term	Definition
2022 ISP	2022 Integrated System Plan
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CESS	Capital expenditure sharing scheme
DNSP	Distribution Network Service Provider
ISP	Integrated System Plan
MW	Megawatt
NEM	National Electricity Market
NER	National Electricity Rule
RIT-T	Regulatory investment test for transmission
TNSP	Transmission Network Service Provider
